Chichester District Council

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Financial Impact of COVID - 19

1. Contacts

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2. Recommendation

2.1 That cabinet recommend to Council:

(i) That the minimum level of reserves be reduced to £4m.

(ii) That £8,070,000 be released from reserves to address the in-year impact of the pandemic.

(iii) That the Council should work towards achieving a balanced budget over the next 5 years, using reserves in the intervening years to help balance the budget.

3. Background

3.1 The council is facing an extremely challenging financial position. It is clear that we will be facing a deficit in the future, but the amount cannot currently be predicted with certainty. However, to do nothing to address this will result in reserves being depleted, and still leaves the issue to be addressed once reserves have expired. Action must be taken to address the position, and develop a strategy that enables the budget to be balanced over the medium term.

4. Economic Outlook

4.1 The current COVID-19 pandemic has already impacted the UK economy and many others around the world. GDP for quarter 1 of 2020 has been estimated to have fallen by 4%, but that almost entirely relates to March only. The Office for National Statistics have indicated that during April alone the UK economy shrank by 20.4%.

4.2 Although the current economic position is extremely difficult to predict, the Bank of England's Monetary Policy Committee (MPC) have modelled a likely, but by no means certain, scenario for the UK economy. This predicts, after falling sharply in the first half of 2020, GDP will pick up relatively quickly in the second half of the year. However, it will take significantly longer for it to return to its previous trajectory representing more of a U shaped recovery, than a V shaped one. The MPC's model makes a number of assumptions which are extremely uncertain, not least of which is that the lockdown will gradually be released from June through to December, and that a favourable trade deal with the EU will be struck by January 2021.

4.3 Inflation is expected to face downward pressure over the rest of this financial year, but is expected to pick up again towards the 2% target by 2021.

4.4 In spite of huge government fiscal intervention, it is highly likely that unemployment will rise adding to a general reduction in consumer confidence, and reluctance to spend on non-essential items which is expected to last much longer.

5. Impact for this Council

5.1 Like many other Councils, Chichester has pursued service efficiency and additional income from commercial activity in order to replace government funding which has gradually been withdrawn over the last decade.

5.2 Currently the Council is funded from the following primary sources of income:

Council Tax	£9.m
Business Rates	£3.4m
Income from Fees and Charges	£18.1m
Total income	£30.5m

5.3 Whilst the economic outlook is extremely uncertain, what is absolutely clear is that the Council's income from fees and charges will face significant pressure for the foreseeable future.

5.4 Some of our income streams, such as car parking (£6.4m 2020-21 budget) may never return to their previous levels as the lockdown is likely to accelerate changes in social behaviour, such as workers choosing to work from home on a more frequent basis, and shoppers moving to on-line, thereby reducing the demand for parking in the city.

5.5 Income from Business Rates and Council Tax will also both come under pressure as unemployment increases and businesses struggle to recover, resulting in increased Council Tax Reduction claims and lower Business Rate collection.

5.6 Added to this the government intends to press ahead with the already delayed Fair Funding Review, and Business Rate reset. This is expected to result in a significant reduction in the amount of business rates that the Council will be able to use to fund its services. The also delayed 2020 spending review will set government departmental spending limits in this autumn. It is likely that local government will not fare well, especially at shire district level.

6 Impact during 2020-21:

6.1 The May 2020 cabinet received a report containing a breakdown of the main impacts on the Council's finances during the current year. We are currently experiencing a loss of income in the region of £1m per month, although the reintroduction of parking charges will help to reduce that in the remainder of the year. Depending on how quickly lockdown restrictions are lifted, it is estimated that the cost this year could be in the region of £8m. This is a combination of income lost (£7m) and increased costs (£1m) such as bad debts and homelessness costs. Against this the government have provided £1.25m of funding. No further government funding is guaranteed, although a further allocation is being debated currently. It is clear however, that any further funding will be inadequate, and in any case will just be a temporary one off allocation.

6.2 Members will undoubtedly want to assist the community during the recovery phase and make some policy choices that will add further expenditure to the Council's budget, as set out in the Recovery Report. Some of this will be one off cost for 2020-21 only, while others may have longer term consequences. These have been incorporated into the 5 year model attached as appendix 1 under the heading "Policy Choices".

6.3 The Council does have relatively healthy reserves to enable it to cope with the immediate pressures. £22.8m is available to call upon. However, this includes the minimum General Fund balance of £6.3m. Whilst the minimum balance can be reviewed it cannot be reduced to nil. The Corporate Governance and Audit Committee are asked to consider reducing this which would release more reserves to support the recovery plan while the Council looks to address its budget position over the medium term.

6.4 The Council's cashflow and Treasury management arrangements have been tested, and it is anticipated that there will be no liquidity issues for this Council, with sufficient short term investments to enable the Council's cashflows to be managed in spite of the current loss of income.

6.5 All Divisional Managers have been instructed to avoid all unnecessary expenditure until further notice. This includes not filling staff vacancies in all but the most urgent and specialised roles and then only by agreement of SLT. Additionally all approved capital projects will also only proceed by exception. This should assist in keeping costs in the current year to a minimum, and reduce the draw against reserves.

7 Impact for 2021-22 and beyond:

7.1 Of much greater concern is the potential deficit the council will face in future years. Whilst reserves are held for just such emergencies, they are a finite resource and cannot be relied upon to balance the budget on a recurring basis. To do so not only fails to address the issue, which will still need to be addressed at some point, it would also deplete reserves which could otherwise have been invested to assist the Council, the local economy, and our residents.

7.2 The 5 year financial model has been updated, building on the MPC model, and estimating the likely reduction in our income streams. This is attached as appendix 1 to this report. This currently indicates a significant deficit on the

Council's projected revenue budget in each of the next five years, and unless action is taken this would require £24.2m of reserves to be used.

7.3 Key assumptions in the model are as follows:

	2021-22	2022-23	2023-24	2024-25	2025-26
Inflation	1%	2%	2%	2%	2%
Pay inflation	2%	2%	2%	2%	2%
Increase in CTR claims*	50%	40%	25%	10%	nil
Reduction in Fees and Charges	20%	15%	10%	5%	5%
*NB a 50% increase in CTR claims equates to about 2,000 band D properties, or 3.6% of our tax base.					

It must be acknowledged that the model at this time is of course very difficult to predict with accuracy, and the actual deficit will undoubtedly vary from the model. However, having gone from a position of being broadly balanced prior to COVID-19, it is not surprising that we are now facing a significant funding gap.

8. Outcomes to be Achieved

8.1 To achieve a balanced budget over the medium term, whilst protecting vital public services as far as possible. And to maintain an adequate level of reserves to mitigate any further emergencies in the future.

9. Proposal

9.1 It is a legal requirement to set a balanced budget. It is also sound financial management to do so within the context of the medium term projections. The issue facing the Council is not whether we need to make savings, clearly we must, it is a question of timing.

9.2 Preferred option – Option 3. It is recommended that the Council should develop a strategy to address a savings target of at least that predicted for year 5 of the model, currently estimated to be £2m. The strategy, and savings, to be implemented in time for the 2022-23 budget. This will mitigate the impact on reserves and also achieve a balanced budget position over the medium term. It will also mean that service delivery will not be impacted before the true financial consequence of the pandemic are fully understood.

9.3 In the meantime officers will also embark on a round of service efficiency reviews to ensure all services are delivered as efficiently and effectively as possible. Some of these efficiency savings should be achieved for the 2021-22 budget. A model to help with the prioritisation of services has been developed and is detailed in the Recovery Report, a copy of which is attached.

9.4 In effect this option builds upon option 2 as set out below, but includes reviewing all services to identify any efficiency savings that might be achieved which would reduce the use of reserves.

9.5 The Council's minimum level of general fund reserves has been set at £6.3m for several years. However, this is at a relatively high level for a District Council. Other West Sussex District authorities have a minimum level of reserves ranging from £1.5m to £6m. It is recommended that the minimum level for Chichester be reduced to £4m, thus enabling £2.3m to be made available should it be necessary. If this is approved, then the Council could access £18.8m of the £22.8m that is technically available. This would be insufficient for option 1 below, but would enable the Council to implement the Future Services Framework during the next 12-18 months ahead of setting the 2022-23 budget.

10. Capital Programme

10.1 The council currently has an approved £47m capital programme. Some of these projects are funded from sources other than the Council's own reserves, for example those schemes funded from CIL, or Disabled Facility Grants funded by the government. However, there are a significant number of CDC funded projects, which if stopped, or reduced would free up further reserves that could either be deployed to support revenue, or be diverted to fund economic recovery projects.

10.2 It is proposed that capital schemes funded from this Council's reserves, and which are not already contractually committed will be deferred to the 2021-22 financial year. Only in very exceptional circumstances will projects continue, for example where not replacing an asset might create a health and safety risk.

10.2 The redevelopment of St James' Industrial Estate, and Freeland Close redevelopment projects will however, continue as planned as these have significant economic and social value to the community.

11. Alternatives Considered

11.1 Option 1 - Delay implementing a new deficit reduction plan. This has the advantage of waiting until the financial position becomes more certain, and thereby avoiding the potential to impact service delivery too early. But delaying also has the disadvantage of having to use up more reserves during the interim which could perhaps be used in other ways to aid the economy, such as investing in Southern Gateway and the Green agenda, and ultimately the deficit will still need to be addressed. To do nothing for the whole duration of the 5 year model would use up £24m of reserves, including the current year's deficit. This is clearly not affordable, or prudent and as the Council's S151 officer I cannot recommend that course.

11.2 Option 2 - A more reasonable approach would be to defer making any immediate decisions in relation to funding, but to plan for what might be necessary and develop a flexible strategy that can be implemented as soon as the economic picture becomes clearer. Implementing only those decisions that are necessary, and no more. The model attached suggests that we will be facing a reduction somewhere in the region of £2m by the end of the 5 years. A strategy based on the predicted year 5 deficit, if implemented in time for the 2022-23 budget would reduce the need to use reserves by around £8m to £16m. It should be noted that any further policy choices which increase expenditure, would also reduce the amount of reserves that are available. This would be more affordable than option 1, but still significantly reduces the ability for the Council to invest reserves in economic development projects.

11.3 Option 3 - The recommended approach takes the approach of option 2, and adds an efficiency review across all council services to ensure the deficit is minimised before impacting on service delivery.

12 Resource and Legal Implications

12.1 It is a legal requirement to set a balanced budget. However, it is perfectly legal to achieve this by using reserves. This report aims to enable the Council to achieve a balanced budget without continually relying on reserves over the medium term. The Director of Corporate Services and Council's S151 officer considers such an approach to be both essential and prudent in the current climate.

12.2 The Council could choose to borrow to support future capital investment schemes, but would need to deplete all available reserves first. The impact of taking the Council into debt has not been factored into the financial model at this time.

12.3 No other legal issues arise from this report.

13 Consultation

13.1 This report is being debated at the Corporate Governance and Audit committee on 2 July. A verbal update will be provided to Cabinet.

13.2 Public consultation may be necessary should front line service delivery be impacted by recommendations arising from the Future Services Framework (see Recovery Report).

14 Community Impact and Corporate Risks

14.1 Failure to set a balanced budget over the medium term.

14.2 Depletion of reserves to a level which is unsustainable.

14.3 Reserves used to support revenue rather than investing in economic recovery projects.

15 Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X

Human Rights and Equality Impact		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other (please specify)		X

16 Appendices
5 year Financial Model – Exempt appendix

17 Background Papers
None